



Claire McCaskill

Missouri State Auditor

March 2005

CORRECTIONS

Missouri Eastern Correctional Center



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2005

The following problems were discovered as a result of an audit conducted by our office of the Department of Corrections, Missouri Eastern Correctional Center.

The Missouri Eastern Correctional Center (MECC) became operational in 1981. The facility is located on 42 acres in Pacific, Missouri, and is a high-medium security facility.

The MECC operates a canteen for the offenders' benefit. Our review noted that no perpetual inventory records are maintained for the canteen items. Department of Corrections (DOC) policy requires that a perpetual inventory be maintained on all stock items held in inventory. In addition, a complete and accurate record of all expensive or high-risk items is not maintained. During our audit, we noted 18 radio headphones and three color televisions had not been recorded in the high-risk ledger. Also, the canteen manager could not account for all black and white televisions recorded in the ledger.

Offender release stipends are not recorded in the business office's receipts ledger. Release stipends are transmitted from DOC's Central Office in cash form and are kept in a safe until the offender release date. All monies received should be recorded immediately upon receipt. Also, the duties of receiving, recording, and transmitting receipts are not adequately segregated, and there is no indication that a supervisory review of the accounting record is conducted.

The MECC did not solicit bids for some purchases, including fuel totaling \$28,525.

The MECC maintains an armory for firearms, ammunition, chemical agents, and miscellaneous items. No perpetual records are maintained for the armory. Although physical inventory counts were performed, these counts could not be compared to any record, diminishing the effectiveness of the inventory controls. Additionally, no independent verification of physical inventory is performed after the custodial armory officer conducts a monthly physical inventory, which is a violation of DOC policy.

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YELLOW SHEET

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Matt Blunt, Governor
and
Larry Crawford, Director
Department of Corrections
and
Larry Rowley, Superintendent
Missouri Eastern Correctional Center
Pacific, MO 63069

We have audited the Department of Corrections, Missouri Eastern Correctional Center. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2004 and 2003. The objectives of this audit were to:

1. Review internal controls over significant management and financial functions.
2. Review compliance with certain legal provisions, regulations, policies, and contracts.
3. Evaluate the economy and efficiency of certain management practices and operations.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the correctional center, as well as certain external parties; and testing selected transactions.

In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the correctional center's management and was not subjected to the procedures applied in the audit of the correctional center.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Corrections, Missouri Eastern Correctional Center.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

December 9, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Debra S. Lewis, CPA
Audit Staff:	Chris Vetter
Steven Re', CPA	

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER
MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S FINDINGS

1.	Canteen Procedures
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No perpetual inventory records are maintained for canteen items, and a complete and accurate record of all expensive or high-risk canteen items is not maintained. The Missouri Eastern Correctional Center (MECC) operates a canteen for the offenders' benefit. The canteen stocks and sells numerous products such as soda, tobacco products, snack foods, radios, and televisions. An inventory of all items is conducted on a monthly basis. The following concerns were noted regarding the canteen:

- A. No perpetual inventory records are maintained for the canteen items. As a result, a comparison of physical inventory counts to balances recorded in the perpetual records is not possible, and the effectiveness of the monthly inventory is minimized. Department of Corrections (DOC) policy D3-9.2, Section III.H.2., requires the facility to maintain a perpetual inventory on all stock items.
- B. A complete and accurate record of all expensive or high-risk items is not maintained. During our audit, we noted 18 radio headphones and three color televisions had not been recorded in the high-risk ledger. In addition, the canteen manager could not account for all black and white televisions recorded in the ledger. DOC policy D3-9.2, Section III.H.1., requires the canteen manager maintain a perpetual inventory record of expensive or high-risk items such as radios, CD players, and televisions. This record shall contain a complete description of each item, including individual serial numbers.

Effective internal controls over canteen inventory require perpetual records be maintained on all inventory items in accordance with department policy. In addition, a reconciliation of the balances obtained during the physical inventory count and the balances recorded on the perpetual inventory records must be performed. Furthermore, adequate controls over canteen inventory is necessary to ensure errors and other irregularities are prevented or detected in a timely manner.

WE RECOMMEND the MECC:

- A. Require perpetual inventory records be maintained for the canteen, document the comparison of physical inventory counts to the perpetual inventory records, and follow up in a timely manner on any discrepancies noted.
- B. Ensure all high-risk items are recorded by serial number immediately upon receipt and are accounted for properly.

AUDITEE'S RESPONSE

- A. *We concur and have implemented the yellow perpetual card stock inventory system prior to the auditor's departure.*
- B. *We concur and took immediate steps to ensure the policy requiring ID documentation was followed.*

2. Cash Procedures

Offender release stipends are not recorded in the business office's receipts ledger. In addition, the duties of receiving, recording, and transmitting receipts are not adequately segregated, and there is no indication that a supervisory review of the accounting records is conducted. The MECC receives money from photo sales, vendor refunds, vending machine commissions, and offender release stipends and account balances from Central Office at the time of release. The following concerns were noted regarding cash procedures:

- A. Offender release stipends are not recorded in the business office's receipts ledger. Release stipends are transmitted from DOC's Central Office in cash form and are kept in a safe until the offender release date. To adequately safeguard receipts and reduce the risk of loss or misuse of funds, all monies received should be recorded immediately upon receipt.
- B. The duties of receiving, recording, and transmitting receipts are not adequately segregated, and there is no indication that a supervisory review of the accounting records is conducted. All business office employees are responsible for receipting monies and also transmitting these monies to the Central Office. To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receiving and transmitting monies from that of recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a supervisory review of reconciliations between receipts and transmittals to Central Office.

WE RECOMMEND the MECC:

- A. Ensure all receipts are recorded in the receipts ledger.
- B. Adequately segregate the duties of receiving, recording, and transmitting monies. At a minimum, there should be a documented supervisory review of the reconciliations between receipts and transmittals to Central Office.

AUDITEE'S RESPONSE

- A. *We concur and have implemented steps to ensure all cash receipts are properly recorded in a timely manner.*
- B. *Due to limited staff, the auditor's recommendation of segregating duties is not feasible. However, we concur that in lieu of proper segregation of duties, a supervisory review of reconciliations between receipts and transmittals provides a better system of internal control. Therefore, a supervisory review was implemented prior to the auditor's departure.*

3. Bidding Procedures

The MECC did not solicit bids for some purchases. We noted bids were not obtained for fuel totaling \$28,525.

Section 34.040, RSMo 2000, requires bids be obtained for purchases over \$3,000. Competitive bidding helps ensure the MECC receives fair value by contracting with the lowest and best bidders. In addition, complete documentation should be maintained of all vendors solicited and all bids received. If other than the lowest bid is selected, the reasons should be adequately documented.

WE RECOMMEND the MECC ensure purchases exceeding \$3,000 are properly bid in accordance with state law.

AUDITEE'S RESPONSE

Although bulk fuel prices fluctuate throughout the year, we will nevertheless consider bidding this commodity on an annual or periodic basis.

4. Armory Procedures

No perpetual records are maintained for the armory, and no independent verification of the physical inventory is performed. The MECC maintains an armory for firearms, ammunition, chemical agents, and miscellaneous items. An inventory of all items is conducted on a monthly basis. The following concerns were noted regarding the armory:

- A. No perpetual records are maintained for the armory. As a result, a comparison of physical inventory counts to balances recorded in the perpetual records is not possible. As a result, the effectiveness of the periodic physical inventory procedures is minimized. DOC policy D4-5.1, Section III.A., requires the facility to maintain perpetual inventory records for the armory.

Effective internal controls over inventories require perpetual records be maintained on all inventory items in accordance with department policy. In addition, a comparison of the balances obtained during the physical inventory count and the balances recorded on the perpetual inventory records must be performed. Furthermore, adequate controls over inventories are necessary to ensure errors and other irregularities are prevented or detected in a timely manner.

- B. No independent verification of physical inventory is performed after the custodial armory officer conducts a monthly physical inventory. This practice is in violation of the DOC policy D4-5.1, Section III.A., which states that the physical inventory must be verified by an institutional employee whose duties do not include the maintenance of that particular inventory.

An independent verification enhances controls of inventories and helps reduce the risk of misuse.

WE RECOMMEND the MECC:

- A. Require perpetual inventory records be maintained for the armory, document the comparison of physical inventory counts to the perpetual inventory records, and follow up in a timely manner on any discrepancies noted.
- B. Require physical inventories to be verified by an employee independent of custodial and record-keeping duties.

AUDITEE'S RESPONSE

- A. *Although no discrepancies were noted, we concur and have begun to implement a perpetual inventory system to properly account for equipment and supplies.*
- B. *We concur and will ensure independent verifications of physical inventories are documented.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri Eastern Correctional Center (MECC) is located in Pacific. First opened in 1981, MECC is a high-medium security institution housing male offenders. The institution consists of 4 housing units each designed to accommodate 256 male offenders, an offender segregation housing unit designed to accommodate 110 male offenders, a central services building, a gymnasium, a garage, a maintenance department, five elevated towers, a water treatment plant, and administrative offices. The perimeter is secured by two, 12 foot-high fences. The inner fence is rowed with razor sharp barbed wire every six feet. The fence also has an electronic motion system connected to it. The outer fence is topped with barbed wire. The facility is surrounded by a private asphalt road that is used by a constantly roving vehicular patrol for additional security. The facility is situated on 42 acres.

The administrative building contains the administrative offices, offender visiting areas, and the medical clinic. The central services building houses the probation and parole office, food service area, chapel, library, academic school, canteen, offender property room, warehouse, laundry, activities room, and the Missouri Vocational Enterprise program.

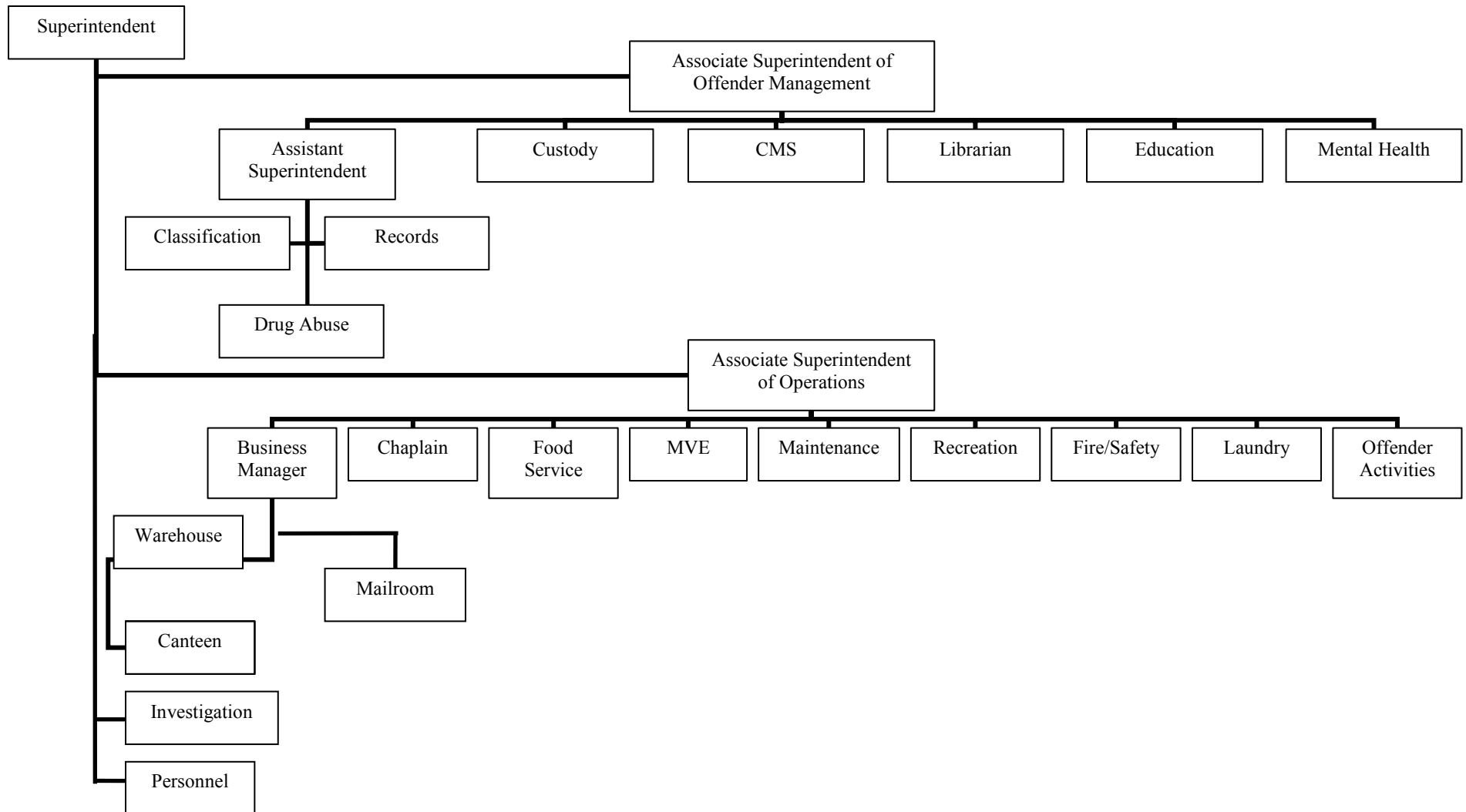
MECC offers a G.E.D. program, a special education program for offenders under the age of 22 with less than a 12th grade education, the Lau Bach Program for improving basic literacy skills, the Title I program for remedial help for offenders under the age of 21, and college correspondence course work. The education area is comprised of 13 classrooms and one testing room. Each teacher is certified in Adult Basic Education. Offenders are required to complete their G.E.D. to be eligible for parole or premium job assignments.

MECC has authorized 120 volunteers to assist with operating its volunteer programs. Volunteers provide services in religion, treatment, and education. Volunteers also act as staff liaisons for offender organizations. Among the volunteer services provided are Violent Offender Program, Restorative Justice, Cage Your Rage, and Long Distance Dads. Volunteers also sponsor offender organizations such as Alcoholics Anonymous, Narcotics Anonymous, and NAACP.

Larry Rowley has served as the facility superintendent since April 2003. The MECC employed approximately 284 employees assigned to various administrative, service, security, and academic and vocational education functions as of June 30, 2004.

An organization chart and financial data follow:

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER
ORGANIZATION CHART
JUNE 30, 2004



* Only personnel at the management level are included on this organization chart. There are numerous staff within each department.

Appendix A

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

		Year Ended June 30,					
		2004			2003		
		Appropriation Authority	Expenditures	Lapsed Balances*	Appropriation Authority	Expenditures	Lapsed Balances*
GENERAL REVENUE FUND							
Personal Service	\$	6,713,997	6,309,861	404,136	6,838,593	5,955,469	883,124
Total General Revenue Fund		6,713,997	6,309,861	404,136	6,838,593	5,955,469	883,124
FACILITIES MAINTENANCE RESERVE FUND							
Facilities Maintenance-Control Console		1,725	0	1,725 **	39,477	39,477	0
Facilities Maintenance-Alarm System		215,837	208,961	6,876 **	312,830	312,830	0
Facilities Maintenance-Control Panels		573,478	424,596	148,882 **	4,310	4,310	0
Total Facilities Maintenance Reserve Fund		791,040	633,557	157,483	356,617	356,617	0
WORKING CAPITAL REVOLVING FUND							
Personal Service		54,960	48,630	6,330	53,760	39,648	14,112
Total Working Capital Revolving Fund		54,960	48,630	6,330	53,760	39,648	14,112
Total All Funds	\$	7,559,997	6,992,048	567,949	7,248,970	6,351,734	897,236

Note: The appropriations presented above are used to account for and control the facility's expenditures from amounts appropriated to the facility by the General Assembly. The facility administers transactions from the appropriations presented above. However, the state treasurer as fund custodian and the Office of Administration provide administrative control over the fund resources within the authority prescribed by the General Assembly. This does not represent all expenditures of the facility. Some expenditures relating to state facilities are charged to department-wide appropriations and not identified by facility. Expenditures charged to the department-wide appropriations that are identified to Missouri Eastern Correctional Center (MECC) are noted in Appendix B.

* The lapsed balances include the following withholdings made at the Governor's request:

		Year Ended June 30,	
		2003	2004
General Revenue Fund:			
Personal Service	\$	218,560	882,390
Total General Revenue Fund	\$	218,560	882,390

** Biennial appropriations set up in fiscal year 2004 are re-appropriations to fiscal year 2005. After the fiscal year-end processing has been completed, the unexpended fiscal year 2004 appropriation balance for a biennial appropriation is established in fiscal year 2005. Therefore, there is no lapsed balance for a biennial appropriation at the end of fiscal year 2004.

Appendix B

DEPARTMENT OF CORRECTIONS
MISSOURI EASTERN CORRECTIONAL CENTER
COMPARATIVE STATEMENT OF EXPENDITURES (BY BUDGET OBJECT)

	Year Ended June 30,			
	2004		2003	
	Expenditures	Expenditures From	Expenditures	Expenditures From
	From Facility	Department-Wide	From Facility	Department-Wide
	Appropriations	Appropriations	Appropriations	Appropriations
		For MECC		For MECC
Salaries & Wages	\$ 6,358,491	1,172,728	5,995,117	1,276,359
Travel, In-State	0	4,335	0	8,303
Travel, Out-of-State	0	305	0	1,103
Fuel & Utilities	0	681,173	0	651,626
Supplies	0	774,173	0	775,848
Professional Development	0	3,027	0	852
Communication Service & Supplies	0	36,853	0	24,518
Professional Services	28	30,000	4,310	16,730
Housekeeping & Janitor Services	0	89,934	0	64,943
Maintenance & Repair (M&R) Services	0	63,918	0	67,771
Computer Equipment	0	12,637	0	3,400
Motorized Equipment	0	0	0	23,350
Office Equipment	0	2,561	0	1,928
Other Equipment	0	37,212	0	12,035
Property & Improvements	633,529	0	352,307	22,344
Equipment Rental & Leases	0	22,567	0	238
Miscellaneous Expenses	0	123,010	0	116,218
Total Expenditures	\$ 6,992,048	3,054,433	6,351,734	3,067,566

Note: Not included in this schedule are expenditures paid from department-wide appropriations, such as inmate medical services and capital improvements, that do not specify amounts by facility.